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## SPECIAL ANALYSIS

### POLAND: Mortgaging the Future

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*The regime has for the moment halted the decline in industrial production and created a substantial trade surplus with the West by slashing imports. These gains, however, have been achieved by sharp reductions in investment and harsh cutbacks in the consumer sector. These are bad omens for future growth and domestic calm.* [REDACTED]

Overall output for the first six months of 1982 declined by 7.8 percent compared to the same period last year. Production in June stagnated after a slight increase in May. Any further increases probably will be small and performance will remain far below peak levels of 1978. [REDACTED]

Premier Jaruzelski's economic strategy has been to coerce enough output from a battered economy and a hostile population to ease financial problems with the West and to lay the basis for eventual recovery. His main tools have been martial law controls and massive retail price increases designed to drive down living standards, absorb excess money, and correct market disorder. To counter the effects of Western sanctions, he has sought to reorient the economy toward CEMA and has appealed for assistance from its members. [REDACTED]

To conserve its scarce hard currency, the government evidently has decided to make heavier cuts in imports of machinery, equipment, and agricultural goods and fewer cuts in imports of industrial materials. This decision probably accounts in part for the present halt in the decline of industrial production. [REDACTED]

The regime plans to double grain procurements from private farmers to make up for the reduced imports. This may lead to serious problems with farmers, especially if the government moves to compulsory deliveries. [REDACTED]

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Coal production, which jumped 17 percent over the same period last year, is the one bright spot. The increase is the result of martial law restrictions, a longer workweek, and special bonuses and benefits. The rise in production has eliminated electric power restrictions in industry, permitted additional deliveries to farmers, and made possible increased exports.

The government also is facing growing labor difficulties, with 280,000 job vacancies and only 20,000 job seekers. The vacancies grew out of a liberalized early retirement program put into effect earlier this year.

Many managers now complain the retirement of large numbers of skilled workers has hurt them more than shortages of materials. The government also has admitted a growing problem of absenteeism.

Jaruzelski's economic policies have hit the consumer hard. The government in the first five months supplied retail markets with 20 percent fewer goods in real terms than last year--17 percent less food, 20 percent less manufactured goods, and 30 percent less alcohol. The cost of living, meanwhile, has climbed 104 percent in the first six months while workers' incomes have increased only 45 percent.

#### Looking to the East

Poland's efforts to get help from the USSR and from Eastern Europe have not had much impact. Polish economists have argued publicly that less than 10 percent of Western industrial materials could be replaced by the East.

Moreover, Poland's deficit in trade with the USSR for the first six months--equivalent to a soft currency trade credit from the Soviets--is only 60 percent of the level in 1981 for the same period. Some Polish officials have publicly complained Moscow is supplying few additional raw materials and that 85 percent of the production from these materials must be shipped to the USSR for payment.

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### Debt Problems

Poland has made little progress in resolving its external financial difficulties. A record hard currency trade surplus of \$800 million in the first half of 1982 has enabled Warsaw to pay off arrearages on obligations for 1981, but the regime has not begun payments on its \$11.2 billion debt service due this year.

[REDACTED]

Private creditors began talks with Warsaw officials last month, but negotiations will be complicated. The Poles continue to seek total relief from debt service this year.

[REDACTED]

### Outlook

Economic pressure is unlikely to ease during the remainder of 1982. Jaruzelski is unwilling to take the steps required to obtain Western credit or to satisfy the people.

[REDACTED]

The government has already warned consumers that they may face further declines in living standards for the rest of the year. This will make even more difficult the regime's task of trying to find the proper balance between relaxing controls to gain the cooperation of the population and minimizing political trouble in the coming months.

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